COUNCIL AGENDA: 10-21-03
ITEM: ______

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: **Honorable Mayor and Council**

FROM: Kay Winer
Scott P. Johnson

SUBJECT: **APPROVAL OF ACTIONS RELATED TO THE HAYES MANSION CONFERENCE CENTER**

DATE: October 16, 2003

Approved Date

Council District: City-Wide
SNI: NA

SUPPLEMENTAL REPORT

Reason for Supplemental

Since issuance of the staff report on October 9, 2003, staff has been requested to provide :

- A comparison between the current lease with HRLP and the proposed lease submitted by Network Conference Company in association with Native American Resorts;
- A comparison between the proposed lease submitted by Network Conference Company in association with Native American Resorts and the management proposal submitted by Dolce International;
- Additional information on Dolce International's sales and marketing strategy and examples of its track record of managing underperforming (distressed) properties.

Additionally, we would like to make the Mayor and Council aware of staff's concerns related to numerous proposal revisions that Network Conference Company LLC, in association with Native American Resort LLC, has submitted subsequent to the Request for Proposals ("RFP") deadline of September 11, 2003.

Summary

The analysis that follows shows that the lease proposal submitted by Network Conference Center and Native American Resorts on September 11 in response to the RFP is far less beneficial to the City than the current lease. Additionally, the analysis shows that over a five-year period, the financial benefit to the City is greater under the Dolce proposal.

The information in this supplemental report demonstrates Dolce's proven track record to "turn around" distressed facilities into profitable operating centers and to maximize net operating revenues through its strategic sales and marketing programs. Mr. Andy Dolce, founder and CEO, will be present at the Council meeting on October 21 to respond to questions from the Mayor and City Council.

Mr. Dolce has also met with Enrique Fernandez, Business Manager for Local 19 and expressed Dolce's commitment to retain existing employees at the Hayes and to operate the facility under a collective bargaining agreement should Council approve staff's recommendation.

Financial Structure of Original Lease Proposal dated September 11, 2003 from Hayes Conference Resort ("HCR")

The proposal submitted by Network Conference Company LLC in association with Native American Resorts LLC contemplated the formation of a new joint venture to be called Hayes Conference Resorts LLC ("HCR"). As noted above, the City has received several variations of a lease proposal from HCR and Native American Resorts. The key financial provisions outlined in the September 11 proposal are discussed below.

Proposed Modifications to Lease – Schedule A
The original proposal, dated September 11, 2003 requests modifications to the existing lease terms currently in place between the City and Hayes Renaissance Limited Partnership (HRLP) as outlined in Schedule A, attached. The fiscal impact, based on HCR's five-year financial proforma, would have a negative fiscal impact on the City, resulting in reduced revenues payable by HCR to the City of over $5.8 million dollars. It should be noted, however. that there will be a further negative impact to the City throughout the proposed lease term beyond the five-year proforma period.

HCR's Proposed Funding Plan
The original September 11th proposal from HCR provided that funds would be paid by HCR totaling $4,346,470 to fund the following: payoff HRLP's Comerica line of credit of $1,696,970; pay off Devcon loan of $1,200,000; pay off a general partner loan from Greater Bay Bank to HRLP of $149,500; fund $500,000 to the City's Hayes Mansion Trust Fund; and pay Network Conference Center $800,000 for the existing Hayes database. In addition, HCR stated they would provide $2.85 million as working capital reserve for the Hayes. The proposal also stipulated that HCR receive from the City a cash payment equal to advance deposits for future business commitments (currently HRLP's customer deposits outstanding is approximately $500,000 in which HRLP has advance payment from customers contingent upon HRLP providing future conference services).

HCR's Proposal to Waive Amounts Due to City from HRLP
The September 11th proposal also stipulates that the City waive all advances and deferred rents provided by the City to the existing Lessee of the Hayes Conference Center, Hayes Renaissance Limited Partnership (HRLP). The total City line of credit outstanding due from HRLP as of

October 16, 2003 is $3,373,545. Deferred rents due the City from HRLP as of October 14th from the period of September 2002 to October 2003 are $2,438,426. The total fiscal impact to the City for this provision is $5,811,971.

<u>*Financial Summary of September 11th Lease Proposal*</u>
The HCR proposal provides the following fiscal conditions:

HCR to Fund HRLP's Obligations & Funds to NCC	
Pay off HRLP's debt obligations	$3,046,470 (1)
Purchase database from NCC	$800,000 (1)
HCR to Fund Working Capital Reserve	$2,850,000 (1)
Net Benefit to HRLP, NCC and HCR	**$6,696,470**
Projected Fiscal Impacts on City	
Funds from HCR to City Hayes Mansion Trust Fund	$ 500,000 (1)
City pay HCR HRLP's customer deposits	(500,000) (1)
Fiscal impact on lease modifications (Schedule A)	(5,828,000)
Waive City line of credit and deferred rents to HRLP	(5,811,971)
Net Negative Fiscal Impact on City	**($11,639,971)**

Operating Risk

It should be noted that a lease agreement provides that lease payments would be made by the lessee (HCR) to the lessor (City). The lessee is presumed to take the risk of operations of the facility while "guaranteeing" a negotiated lease payment to the lessor. All net profits generated from operations under a lease arrangement would flow to the lessee (HCR). HCR's proposal projects that they will receive $5.185 million in net profits over the five year proforma period. In addition, HCR's proposal stipulates that Network Conference Company (NCC) (with the existing sales, marketing, administrative, and management staff) will be the contracted management company. HCR's proforma anticipates NCC will receive $1.186 million in management fees over the five year proforma period.

A management agreement provides that a negotiated fee will be paid by the owner (City) of the facility to a management company (Dolce) to operate the facility on behalf of the owner. The owner assumes the risk that operating revenues will be sufficient to fund necessary costs associated with the operations and debt payment of the facility. If Dolce is selected by the Council, the City's negotiation team will develop performance standards, monitoring provisions and reporting requirements to mitigate this risk.

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(1) Item identified in HCR's September 11, 2003 proposed funding plan.

It should be noted that in the case of a lease agreement, the lessee must have sufficient capitalization to fund potential deficits in operating costs that may arise due to fluctuations in the economy and other factors that may cause operating revenues to decrease while operating expenses may rise. In the case of the existing Hayes lease arrangement, as a result of significant reductions in revenues at the Hayes due to a number of factors, including the economic recession, business disruption due to the major renovations of Phase III of the conference center and the absence of a flexible marketing strategy, HRLP did not have sufficient capital to fund operating deficits of the Hayes Mansion. This information was not brought to the City's attention until August 2002. Given the immediate need to protect this valuable City asset and the City's bond ratings, the City Council took immediate action in September 2002 which resulted in the City providing economic relief to HRLP with the intention of providing time to HRLP to market their lease.

The RFP evaluation committee had similar concerns regarding the HCR proposal since the respective parties to the proposal have not provided a commitment of capital (such as a bank certified letter of financial commitment, a formal financial guarantee from an adequately capitalized company or a bank letter of credit) that may be necessary to offset potential deficits in the future. As an example of the risk exposure, as noted above, the City funded over $5.8 million in line of credit and deferral of rents to HRLP from September 2002 through October 2003. Based on the information provided by HCR in their September 11th proposal, there are no assurances that this situation would not be repeated in the future. In addition, the evaluation committee believes the working capital reserve proposed by HCR is insufficient.

<u>Comparison of Projected Net Profits or Projected Rents to the City – Five Year Proforma - Schedule B</u>

The attached schedule B provides a summary comparing the five-year proformas received from HCR and Dolce. Staff's objective was to determine whether there would be sufficient net revenues to fund City debt service on the Hayes Mansion with any residual cash flows available to fund the Comerica line of credit, Devcon loan payments and to fund Hayes Mansion operating and capital reserves as well as reinstating the City's Hayes Mansion Market Rate Volatility Account.

Schedule B summarizes the total lease revenues projected by HCR payable to the City based on their gross revenue projections, taking into account the modifications HCR proposes to the existing Hayes Lease (as noted above). In addition, staff analyzed Dolce's management proposal, which assumes all net profits would be available to the City for the purposes as noted above. <u>Based on the information provided in the detailed proformas from the proposers, this five year analysis shows that the City would benefit by approximately $2.48 million in net revenue with Dolce's management proposal compared to HCR's lease proposal.</u>

It should be noted that Dolce's proforma assumed a more conservative recovery in revenues in 2004 compared to the more aggressive revenue projections provided by HCR. Staff is concerned that HCR's revenue projections are too aggressive. HRLP's original revenue estimates for 2003 was approximately $15 million. Several revisions were made during the year as a result of actual revenue not meeting the projected targets. It appears, based on the most recent actual revenues for 2003, that final 2003 gross revenues for Hayes will be approximately $8.4 million. Given the absence of a specified aggressive marketing strategy in HCR's RFP response, the RFP evaluation committee had serious reservations regarding an achievement of a 66% increase in revenue from $8.4 million in 2003 to $13.9 million in 2004. On the other hand, the evaluation committee had much more confidence in Dolce's proforma projections, given the aggressive marking plan they outlined in their RFP response, and their experience in "turning around" distressed properties as noted below. Dolce projects gross revenues of $12.47 million in 2004.

Cash Flow Projection Comparison – Schedule C

Schedule C (attached) summarizes the net rents (HCR Lease) or net profit (Dolce Management Agreement) after Hayes Mansion debt service is paid. This schedule assumes existing interest rates in the current market environment with gradual increases that reach the 20-year average of municipal bonds by the end of the five-year period. Using the proformas provided by the respective proposers, assuming the same debt service for each option (lease vs. management agreement); the City would be better off over the five-year period with the management agreement proposed by Dolce. The management agreement proposal from Dolce assumes the City would have net revenues (after funding projected City debt service on Hayes Mansion) of $2.87 million over the five year period while the lease proposal from HCR would generate net revenues (after projected debt service) of $389,000 over the same five year period.

It should be noted that during the first year of the management agreement, the City would need to draw approximately $1.2 million from the proposed Comerica line of credit with the City to fund debt service. Based on the projections from Dolce, it is anticipated that the Comerica line of credit would be repaid by year three, and by year five, the City would yield net revenues of $2.87 million to fund repayment of the Devcon loan and to re-establish necessary reserve funds that were depleted with the economic relief provided to HRLP ?as noted above. Based on the proformas provided by each proposer, the City would be better off over the five year period by $2.48 million (projected net revenue, after projected debt service, from Dolce of $2.866 million compared to $389 thousand from HCR).

Dolce International's Marketing Strategies

Dolce recognizes that the greatest strength of the Hayes Mansion is its conference center positioning and the most lucrative source of revenue is the Complete Marketing Package (CMP). Dolce will commit 75% of its marketing dollars and staff resources to this effort. This market will be dramatically expanded through an aggressive, on-site sales focus and through its global sales network. In addition to five global sales offices in North America and one in Europe, Dolce is seriously considering moving its West Coast global sales office from the Portland area and locating it at the Hayes Mansion Conference Center.

The strategy to develop and expand the non-CMP business, (i.e., Associations, European Plan and room only, and a Modified American Plan groups and Social, Medical, Educational, Religious Fraternal groups (SMERF)) includes dedicating one person on the sales team to pursue these forms of business. These are organizations whose needs can often be met at non-peak times and packages can be designed to accommodate their ability to pay.

Once the Hayes Mansion becomes part of Dolce's portfolio, it will become part of Dolce's website and included in their Global Distribution System that is driven by major booking engines such as Apollo and Sabre. Hayes will also be included in Dolce's online booking system where the website always guarantees that the lowest rate available on its own website. The Mayor and Council are encouraged to visit Dolce's website at www.dolce.com .

Dolce is also considering the possibility of a private label website for major corporate customers to post a booking link to Dolce. For example, if Cisco were interested in this service, it would have a Hayes Mansion link on their website and Cisco employees would be able to book transient reservations direct at an agreed upon contract rate. This link would be invisible to everyone else. Dolce has had successful programs with corporations such as IBM.

Another member of the on-site sales team will be dedicated to Transient and Day Meetings. This is a lucrative source of supplemental revenue and a filler of empty space at the facility. Should any of these customers be potential overnight guests, Dolce proposes a corporate contract rate.

In summary, Dolce believes that there is significant room for growth in usage and "top line" revenues utilizing these sales and marketing strategies that are not currently being employed. The "top line" revenues will be further enhanced by their proposals for increased usage of the restaurant, spa and fitness center that were described in the October 9, 2003 staff report.

Dolce International's Experiences with Under-Performing Centers

On October 10, the City requested Dolce to provide more detailed information on facilities that were "distressed" at the time that the company assumed management of the properties. Dolce provided information on four facilities and that information is provided in Schedule D.

- Dallas/Fort Worth Hilton: Assumed management in 1995 and increased revenues by 50% over a four-year period.
- Dolce Chantilly, Paris, France: Purchased facility in September, 1998 and transformed the hotel into a first class conference resort over an 18-month period. Guest rooms were increased from 109 to 200; new conference wing was constructed with 19 additional meeting rooms. Revenues increased from \$6.6 M in 1998 to \$13.1 million in 2002.
- Dolce TarryTown House, Tarrytown, New York: Assumed management in 1995. Revenues increased from \$11 million to \$18 million. In 2001, revenues dropped to \$17 million, due to the effects of September 11 and disruption caused by a 64-

room expansion. In 2002, revenues started to increase, with an ending year revenue of $19 million.

- Dolce Hamilton Park, Florham Park, New Jersey: This is a good comparable to the Hayes Mansion based on size and scope of facilities, as well as the quality of the asset. This facility experienced a decline in revenues beginning in 2001 through the first half of 2003 due to effects of the war, soft economy and SARS. Revenues are beginning an upward trend, however with September 2003 revenues at $2.12 million, compared to $1.64 million in September 2002.

Modifications to RFP from HCR (Network Conference Company LLC in Association with Native American Resorts LLC)

All RFP respondents timely submitted their proposals on September 11, 2003. Interviews were held on September 29 and October 2 with four firms. Each of the four firms invited to an interview was asked to make a presentation that included information about the marketing strategy, details of the five-year proforma, and to respond to specific follow-up questions that were generated as a result of the interview panel's review of each of the written proposals.

For HCR, the proposers were asked to identify the source of cash for transition payments and working capital outlined in their proposal. At the September 29 interview, HCR presented the panel with a faxed letter addressed to Mr. Gene Keluche from Woodfin Suite Hotels dated September 29. The letter from Woodfin was not a letter of commitment for working capital, but an expression of potential interest, assuming that Woodfin be provided a 30 day period to conduct its due diligence.

The interview panel informed the proposers that a firm commitment was expected, which resulted in a letter from Native American Resorts to the City dated October 1, 2003, requesting an extension to secure the commitment from Woodfin Suite Hotels. This letter also included an alternative proposal to provide $5.5 million that would be comprised of $2.5 million in working capital and $3 million as a security deposit that would be reduced by $1 million at the end of each calendar year during which there had been no default under the lease. The extension request was subsequently withdrawn and staff sent Native American Resorts a letter confirming that the extension request had been withdrawn. Staff's letter also informed the proposers that it would be inappropriate for the City to consider any alternative proposal at this point in the RFP process when all the proposals had been evaluated and interviews had already been held.

Despite the communication to the proposers that alternative proposals were inappropriate and should not be considered after the deadline, Native American Resorts sent another proposal directly to the Mayor and Council dated October 10, 2003, with a copy to the City Manager. This letter proposed that the lease be granted to a new entity to be formed between Native American Resorts with Woodfin Suite Hotels. This new proposal eliminates any reference to Network Conference Center LLC. A letter from the Chairman of Woodfin Suite Hotels expresses interest in participating as a financial partner, but there is still no evidence of a firm commitment of funds to support Native American Resort's proposal to provide an infusion of $6 million in cash.

Staff is concerned that any consideration given to modified proposals submitted by Network Conference Company or Native American Resorts undermines the integrity of the RFP process. Each step of the process has been followed diligently by all of the other proposers and none has suggested altering their proposals in any way.

Coordination

This report has been coordinated with the Finance Department, City Manager's Office and the City Attorney's Office.

KAY WINER
Deputy City Manager

SCOTT P. JOHNSON
Director of Finance

Hayes Mansion Conference Center

Summary of Modifications to Lease Terms Proposed by HCR

Lease Agreement with HRLP	Lease Modifications Proposed by HCR	Effect of Proposed Modifications	Economic Impact
Section 2.2 The Lease Term ends December 31, 2051.	Extend the Lease Term two years to December 31, 2053.	Extending the Lease Term delays the City's opportunity to re-structure the Lease or replace HCR as the operator.	
Section 2.3 HRLP has the option to extend the Lease Term for either one additional term of 20 years or up to two additional terms of 10 years each.	No change.		
Section 1.26 The definition of Gross Revenues excludes taxes, gratuities and service charges, claims settlement amounts, sale proceeds of furniture, fixtures and equipment, and uncollected accounts receivable.	Gross Revenues would be changed to Total Revenue, and calculated using the income tax basis of accounting.	Would delay the City's receipt of Percentage Rent, since Percentage Rent would be based on HCR revenue received rather than revenue earned.	
Sections 3.2A and 3.2B Refers to the two payment schedules comprising Phase I Base Rent, and specifies the sources and uses of funds associated with the 1993 Restoration and Renovation Agreement.	Combines the two payment schedules into a single schedule of payments, but would terminate Phase I Base Rent six years earlier than under the current lease. Would eliminate the description of sources and uses.	Terminating Phase I Base Rent six years early would reduce revenue to the City by $3,945,000.	-$3,945,000.
Section 3.2D(2)i Specifies that Grounds Rent will be the greater of $300,000 or 2% of Gross Revenues.	Beginning in 2007, Grounds Rent would be 2% of Total Revenue.	Eliminating the "floor" of $300,000 would reduce Grounds Rent revenue to the City in years when Total Revenue falls below $15,000,000.	-$22,000 In first Five Years of Lease

Hayes Mansion Conference Center Summary of Modifications to Lease Terms Proposed by HCR (continued)			
Lease Agreement with HRLP	**Lease Modifications Proposed by HCR**	**Effect of Proposed Modifications**	**Economic Impact**
Section 3.2E(2) The City agreed to defer payment of Percentage Rent for 1999, 2000, and 2001, with the deferred amounts accruing interest at 5.5% annually. Payment of the deferred Percentage Rent, plus interest, is due in four equal installments in 2014, 2015, 2016 and 2017.	The City would waive payment of the deferred Percentage Rent and accrued interest.	Waiving the deferred Percentage Rent and accrued interest would reduce revenue to the City by over $1.1 million.	-$1,100,000
Section 3.2E(3) Percentage Rent is calculated as the following percentages of Gross Revenue over $19,500,000. 2002-2010: 6% 2011-2017: 10% 2018-2051: 12%	Would reduce Percentage Rent to 3% of Total Revenue over $19,500,000 for the term of the lease.	Reducing the Percentage Rent rate to 3% would reduce Percentage Rent revenue to the City by between 50% and 75%.	-$81,000 In First Five Years of Lease
Section 3.2G(2)iv Annual Phase III Base Rent includes $256,000 as a "cushion" to protect the City from a rapid increase in the variable interest rates paid on the Phase III Bonds.	Would reduce the Phase III $256,000 Annual Mitigation Expense to $120,000.	Increases the likelihood that the Hayes Mansion Trust Fund would be exhausted by a rapid increase in variable interest rates, necessitating General Fund intervention to pay debt service on the Phase III Bonds.	-$680,000 In First Five Years of Lease

Hayes Mansion Conference Center Summary of Modifications to Lease Terms Proposed by HCR (continued)			
Lease Agreement with HRLP	**Lease Modifications Proposed by HCR**	**Effect of Proposed Modifications**	**Economic Impact**
Section 3.5B(1) After the final maturity of the Phase I Bonds in November 2018, Phase I Base Rent drops by 50% until November 2024, when Phase I Base Rent ends.	Eliminates the last six years of Phase I Base Rent payments.	Terminating Phase I Base Rent six years early would reduce revenue to the City by $3,945,000.	Economic impact noted above.
		Estimated Negative Economic Impact to the City	**-$5,828,000 (1)**

(1) Note: Economic Impact computed on proposed changes to lease based on NAR's 5 Year Proforma. It should be noted however that there will be a negative impact to the City throughout the term of the proposed lease term beyond the 5 year proforma period.

Summary of Change to Control over Phase III Bonds Proposed by HCR		
Phase III Bonds	**HCR Proposal**	**Effect of HCR Proposal**
The Phase III Bonds are multi-modal, meaning that the City has the ability to switch between paying short-term interest rates and long-term interest rates, depending upon market conditions. All three series of Phase III Bonds are currently in a weekly interest rate mode.	The City would grant HCR the right to convert the Phase III Bonds to a fixed rate or to purchase a rate cap, at HCR's option.	As the issuer of the Phase III Bonds, the City is obligated to pay debt service to bondholders, regardless of the financial health of the Hayes Mansion operator. Allowing HCR control over the Phase III Bonds would subordinate the City's best interest to that of HCR.

SCHEDULE B

Hayes Mansion
Comparison of Projected Net Profits and Projected Rents
HCR Lease Proposal Compared to Dolce Management Agreement
Based on Proposer's Five Year Proformas
(Thousands of dollars)

	2004	2005	2006	2007	2008	Total
Projected Rents to City - HCR Proforma	$ 2,036	$ 2,416	$ 2,616	$ 3,442	$ 4,279	$ 14,789
Projected Net Profit to City - Dolce Proforma	720	2,450	3,951	4,812	5,333	17,266
Difference - Lease Vs Mgmt Agreement	$ 1,316	$ (34)	$ (1,335)	$ (1,370)	$ (1,054)	$ (2,477)

SCHEDULE C

Hayes Mansion
Cash Flow Projections based on Proposers Five Year Proformas
HCR Lease Proposal Compared to Dolce Management Agreement
(Thousands of dollars)

	2004	2005	2006	2007	2008	Total
HCR Proforma - Lease						
Projected Rents to City	$ 2,036	$ 2,416	$ 2,616	$ 3,442	$ 4,279	$ 14,789
Projected City Debt Service	1,950	2,400	2,600	3,400	4,050	$ 14,400
Net Revenue to City	$ 86	$ 16	$ 16	$ 42	$ 229	$ 389
Dolce Proforma - Management Agreement						
Projected Net Profit to City	$ 720	$ 2,450	$ 3,951	$ 4,812	$ 5,333	$ 17,266
Projected City Debt Service	1,950	2,400	2,600	3,400	4,050	$ 14,400
Net Revenue to City	$ (1,230)	$ 50	$ 1,351	$ 1,412	$ 1,283	$ 2,866

SCHEDULE D

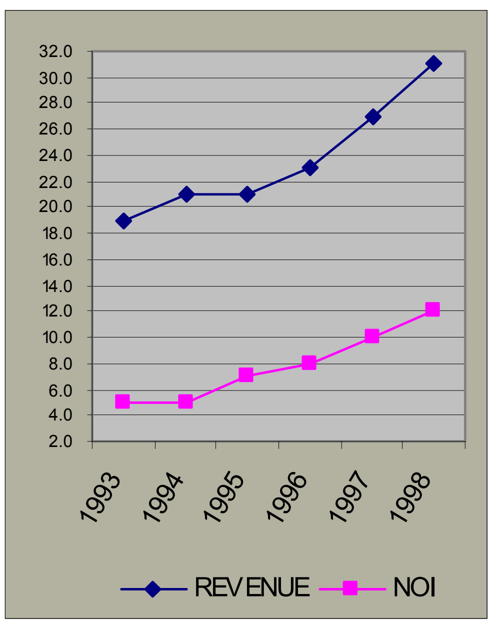
D O L C E   I N T E R N A T I O N A L

DFW HILTON

Dallas / Fort Worth, Texas

Dolce assumed management of the D.F.W. Hilton in July 1995 and increased revenues by 50% over a four-year period. NOI increased by 100% over the same time period, with the NOI margin increasing from 33% to 39% fueled by the introduction of the CMP product combined with Dolce operating initiatives. The owners sold the property in 1998 as a result of the increased value produced by Dolce.

DFW	Prior to Dolce					
{millions}	1993	1994	1995	1996	1997	1998
REVENUE	19.0	21.0	21.0	23.0	27.0	31.0
NOI	5.0	5.0	7.0	8.0	10.0	12.0
NOI MARGIN	26%	24%	33%	35%	37%	39%



DOLCE TARRYTOWN HOUSE

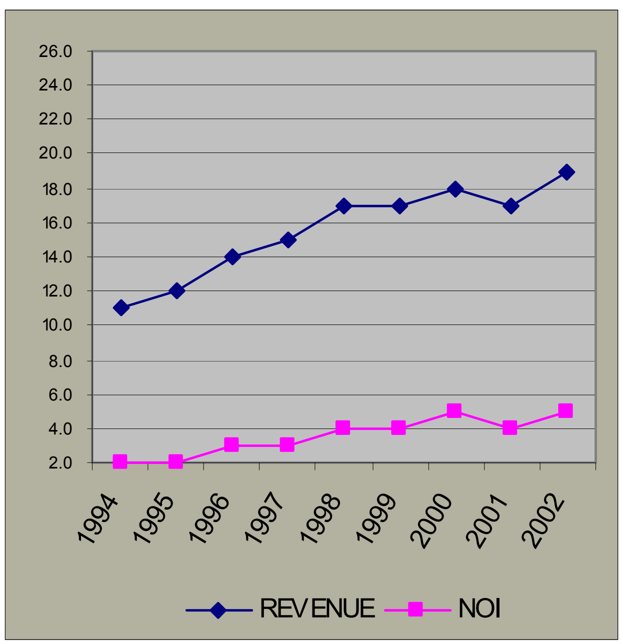
Tarrytown, New York

Dolce assumed management of the Tarrytown House in December 1995. Revenues increased by 64% from 1994 to 2000 with NOI margins increasing from 18% to 24%. The property underwent a renovation and expansion in 2001, increasing the guest rooms from 148 to 212 as well as meeting space.

Tarrytown {millio n's }	Prior to Dolce 1994	1995	1996	1997	1998	1999	2000	2001	2002
REVENUE	11.0	12.0	14.0	15.0	17.0	17.0	18.0	17.0	19.0
NOI	2.0	2.0	3.0	3.0	4.0	4.0	5.0	4.0	5.0
NOI MARGIN	18%	17%	21%	20%	24%	24%	28%	24%	26%

1 - The decline in performance in 2001 is attributed to the effects of 9/11, the recession, and the disruption to the property from the 64 room expansion

2 - The increase in revenue in 2002 was due to the 64-room expansion and greater revenue contribution from Dolce distribution channels, in particular, the Global Sales Organization

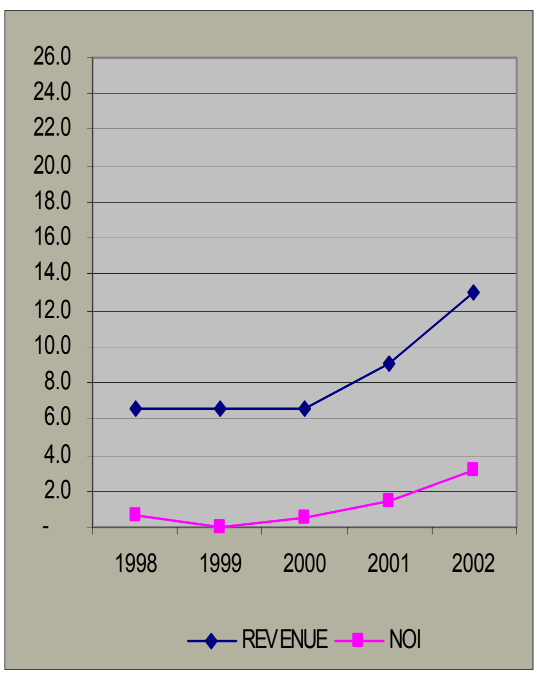


DOLCE CHANTILLY
Paris, France

Dolce Chantilly is a four-star hotel and golf resort located in the Chantilly region of France, roughly 20 minutes from Paris' Charles de Gaulle airport. Dolce purchased Dolce Chantilly in September 1998 and transformed the hotel over an 18-month period into a first class conference resort. The renovation included the expansion of guest rooms from 109 to 200, as well as adding a new conference wing with 19 additional meeting rooms. The facility began realizing its potential as a conference center upon completion of the expansion and renovation.

CHANTILLY Euros {millions}	Prior to Dolce 1998	Expansion Year 1999	2000	2001	2002
REVENUE	6.6	6.6	6.6	9.1	13.1
NOI	0.7	0.0	0.6	1.4	3.1
NOI MARGIN	10%	0%	9%	16%	24%

note: The decline in performance in 1999 and 2000 is the result of business disruption due to expansion



DOLCE HAMILTON PARK

Florham Park, New Jersey

Dolce Hamilton Park was developed by Dolce and is a good comparable to the Hayes Mansion based on the market orientation, size and scope of the facilities, and asset quality.

Revenue decreased in the first half of 2003 largely due to the effects of the war, soft economy, and SARS; however the property is experiencing improvement in the second half of the year, as business travel begins to recover. For example, in September revenue was $2.12 million compared to $1.64 million last year and NOI was $845 thousand compared to $568 thousand for the same period last year.

Hamilton Park {million's}	1994	1995	1996	1997	1998	1999	2000	2001	2002
REVENUE	17.3	17.7	18.9	20.3	22.3	22.9	25.5	23.3	22.6
NOI	4.7	5.1	5.7	6.9	7.6	8.3	9.4	8.9	8.0
NOI MARGIN	28%	29%	30%	34%	34%	36%	37%	38%	36%